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OPEN MEETING ITEM



ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

DATE: APRIL 16, 2013

DOCKET NO.: T-02063A-12-0473

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Jibilian. The recommendation has been filed in the form of an Opinion and Order on:

ARIZONA TELEPHONE COMPANY
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

APRIL 25, 2013

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

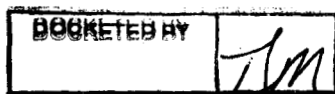
MAY 1, 2013 AND MAY 2, 2013

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

APR 16 2013



Jodi A. Jerich
JODI JERICH
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 BOB STUMP - Chairman
4 GARY PIERCE
5 BRENDA BURNS
6 BOB BURNS
7 SUSAN BITTER SMITH

8 IN THE MATTER OF THE APPLICATION OF
9 ARIZONA TELEPHONE COMPANY FOR A
10 HEARING TO DETERMINE THE EARNINGS OF
11 THE COMPANY, THE FAIR VALUE OF THE
12 COMPANY FOR RATEMAKING PURPOSES,
13 AND TO INCREASE RESIDENTIAL RATES AS
14 NECESSARY TO COMPENSATE FOR THE RATE
15 IMPACTS OF THE FCC'S USF/ICC
16 TRANSFORMATION ORDER.

DOCKET NO. T-02063A-12-0473

DECISION NO. _____

OPINION AND ORDER

12 DATE OF HEARING: March 25, 2013
13 PLACE OF HEARING: Phoenix, Arizona
14 ADMINISTRATIVE LAW JUDGE: Teena Jibilian
15 APPEARANCES: Mr. Craig A. Marks, CRAIG A. MARKS, PLC, on
16 behalf of Applicant; and
17 Ms. Maureen A. Scott, Senior Staff Counsel and Mr.
18 Charles O. Hains, Staff Attorney, Legal Division on
19 behalf of the Utilities Division of the Arizona
20 Corporation Commission.

21 **BY THE COMMISSION:**

22 On November 23, 2012, Arizona Telephone Company ("Arizona Telephone" or "Company")
23 filed with the Arizona Corporation Commission ("Commission") the above-captioned application.
24 The application states that it was filed pursuant to A.R.S. § 40-250 and Arizona Administrative Code
25 R14-2-103, to compensate for the rate impacts of the Federal Communication Commission's
26 ("FCC's") November 18, 2011 Universal Service Fund/Inter-carrier Compensation ("USF/ICC")
27 Transformation Order ("USF/ICC Transformation Order").¹

28 * * * * *

¹ FCC 11-161, *Connect America Fund*, WC Docket No. 10-90 et al., *Report and Order and Further Notice of Proposed Rulemaking*, 26 FCC Rcd 17663 (November 18, 2011); *pets. for review pending* (10th Cir. filed Dec. 8, 2011).

1 Having considered the entire record herein and being fully advised in the premises, the
2 Commission finds, concludes, and orders that:

3 **FINDINGS OF FACT**

4 **Procedural History**

5 1. On November 23, 2012, Arizona Telephone filed the rate application with the
6 Commission.

7 2. On January 22, 2013, Arizona Telephone filed a Motion for Procedural Order.

8 3. On January 28, 2013, a Rate Case Procedural Order was issued, setting the matter for
9 hearing and establishing associated procedural deadlines, including the mailing of notice of the
10 application and hearing to all of Arizona Telephone's customers.

11 4. On February 22, 2013, Arizona Telephone filed an Affidavit regarding notice of the
12 application and hearing.

13 5. On March 6, 2013, Arizona Telephone filed a revised Affidavit indicating that notice
14 as ordered by the Rate Case Procedural Order was mailed to each customer of Arizona Telephone.

15 6. No requests for intervention were filed.

16 7. On March 14, 2013, Staff filed its Staff Report recommending approval of the
17 application, for an increase from \$10.00 to \$14.00 in the monthly residence local exchange rate to
18 address the impact of the FCC's USF/ICC Order.

19 8. On March 21, 2013, Staff filed the Testimony Summary of its witness.

20 9. No public comment was filed in opposition to the rate increase.

21 10. On March 25, 2013, a hearing on the application was convened before a duly
22 authorized Administrative Law Judge of the Commission. Arizona Telephone and Staff appeared
23 through counsel, presented testimony and evidence through witnesses, and were provided an
24 opportunity to cross examine witnesses. No members of the public appeared to provide public
25 comment.

26 11. Following the parties' submission of evidence, the matter was taken under advisement
27 pending the submission of a Recommended Opinion and Order.

28 ...

Arizona Telephone

12. Arizona Telephone is an Arizona public service corporation engaged in the business of providing telephone utility service to the public in portions of Coconino, Gila, Pima, Maricopa and Yuma Counties. The Company serves customers in its Sasabe, Hyder, Harquahala, Tonto Basin, Roosevelt, Blue Ridge, Mormon Lake, Greenhaven, Marble Canyon and Supai Exchanges. In its April 15, 2012, Utilities Annual Report, Arizona Telephone reported 2,036 residential lines and 770 business lines.

13. Arizona Telephone is currently charging rates set by Commission Decision No. 73575 (November 21, 2012).

14. Arizona Telephone is a rate of return incumbent local exchange carrier ("ILEC") eligible to receive federal high-cost loop support ("FHCLS").

FCC USF/ICC Order

15. On November 18, 2011, the FCC issued the USF/ICC Order. The USF/ICC Order provides for a transition from former federal universal service programs and most intercarrier compensation systems into a new Connect America Fund ("CAF"). In its USF/ICC Order, the FCC states that by July 1, 2020, intercarrier compensation rates for rate of return companies will be reduced to zero. The recovery from the CAF will phase out over time at 5 percent annually.

16. The USF/ICC Order adds new rules that will reduce FHCLS to carriers by the amount their flat-rate residential local service rates fall below a specified local service rate floor. The rate floor includes state subscriber line charges, state universal service fees, and mandatory extended area service charges, if any are assessed. The USF/ICC Order establishes those rate floors at \$14.00 as of June 1, 2013, with the floor thereafter being determined annually by the FCC's Wireline Competition Bureau.

17. As a recipient of FHCLS, Arizona Telephone is affected by the FCC USF/ICC Order. Under the USF/ICC Order, to continue receiving FHCLS, rural ILECs such as Arizona Telephone must increase their residential local rates to the FCC-mandated residential rate floors. Otherwise, the amount of FHCLS funds received will be reduced dollar-for-dollar for each customer by the difference between the existing local rate and the new rate floor.

1 **Application**

2 18. The application requests that Arizona Telephone be authorized to raise its residential
3 local rates from \$10.00 to the \$14.00 rate floor mandated by the USF/ICC Order to allow it to
4 continue receiving FHCLS.

5 19. Arizona Telephone submitted the application, after consulting with Staff, in a
6 "streamlined" form. The application and accompanying exhibits in support of Arizona Telephone's
7 requested increase in residential rates are based on the twelve months ending June 30, 2012.

8 20. For the twelve months ending June 30, 2012, Arizona Telephone's filing indicates
9 total Intrastate Operating Revenues of \$1,121,018 (which includes FHCLS and Federal Safety Net
10 Additive Support of \$106,060), and total Intrastate Operating Expenses of \$1,865,480, for total
11 Intrastate Operating Income of negative \$774,462 before taxes, and negative \$460,172 after taxes.

12 21. The filing indicates a total Arizona rate base of \$3,873,823, of which \$1,478,798 is
13 interstate, and \$2,395,025 is intrastate.

14 **Staff Recommendations**

15 22. Staff states that it reviewed the application and the federal rule changes that prompted
16 its filing. Staff states that it concluded that the costs appear reasonable and appropriate under the
17 unique circumstances of this case, but that its recommendation should not be viewed as precedent for
18 the processing of future rate case applications.

19 23. Staff states that for the purposes of this proceeding, Arizona Telephone stipulated to
20 the use of original cost less depreciation ("OCRB") as the basis for a determination of its fair value
21 rate base ("FVRB").

22 24. Staff reviewed and analyzed the filing, but did not perform a regulatory audit. Staff
23 does not recommend that Arizona Telephone's rates be set based on a revenue requirement analysis.

24 25. Staff states that the annual revenue effect of Arizona Telephone's requested increase
25 in local telephone service rates to \$14.00 would be \$94,752. Staff states that compared to Arizona
26 Telephone's total revenues, any revenue impact from this rate increase would be small, and any
27 impact on Arizona Telephone's fair value rate of return would be de minimus. Staff states that with
28 Arizona Telephone's requested increase, operating income would remain negative, and that the rate

1 of return would be less than zero, and not meaningful in this case.

2 26. Staff recommends that Arizona Telephone's monthly residence local exchange rate be
3 increased to \$14.00 to address the impact of the USF/ICC Transformation Order. Staff states that it
4 believes the requested increase is just, fair, and reasonable for the following reasons:

- 5 (a) The increase is necessitated by the FCC's November 18, 2011 USF/ICC
6 Transformation Order;
- 7 (b) The increase is necessary to preserve the entirety of the federal USF funds that
8 may flow to Arizona Telephone pursuant to the FCC's rules;
- 9 (c) The increase will minimize/reduce the amount of future rate increase; and
- 10 (d) The increase will allow Arizona Telephone to receive matching funds from the
11 FUSF.

12 27. The Staff Report states that on November 28, 2012, the Records Section of the
13 Corporations Division responded that Arizona Telephone is in Good Standing, and a review of
14 Consumer Services database revealed that no complaints, inquiries and opinions were received
15 pertaining to Arizona Telephone for the period January 1, 2009 – November 28, 2012.

16 28. Staff states that a check of the Utilities Division Compliance Section database showed
17 that Arizona Telephone is in compliance with all items.

18 Conclusions

19 29. Under the particular circumstances of this proceeding, a rate of return analysis is not
20 useful.

21 30. According to the evidence presented, the rate increase request will have a de minimus
22 effect on Arizona Telephone's return on FVRB.

23 31. Staff's recommendations are reasonable and should be adopted.

24 32. Under the particular circumstances of this proceeding, Arizona Telephone's rates for
25 residential local service should increase from the currently tariffed rate of \$10.00 to \$14.00, and all
26 other currently tariffed rates should remain unchanged, in order to assure continued FUSF support for
27 Arizona Telephone's services.

28 CONCLUSIONS OF LAW

1. Arizona Telephone is a public service corporation within the meaning of Article 15 of

the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over the Company and over the subject matter of this proceeding.

3. The Company provided notice of this proceeding in accordance with law.

4. The Company's Arizona Intrastate FVRB as of June 30, 2012, is \$2,395,025.

5. Under the particular circumstances of this proceeding, a rate of return analysis is not useful.

6. Under the particular circumstances of this proceeding, it is appropriate to increase Arizona Telephone's rates for residential local service from the currently tariffed rate of \$10.00 to \$14.00, and to leave all other currently tariffed rates unchanged, in order to assure continued FUSF support for Arizona Telephone's services.

7. The rates and charges authorized herein are just and reasonable and promote the public interest.

8. The Company should be directed to file revised tariffs showing the rates authorized herein.

ORDER

IT IS THEREFORE ORDERED that Arizona Telephone Company shall increase its rates and charges in accordance with the Findings of Fact herein.

IT IS FURTHER ORDERED that such new rates and charges shall be effective for Arizona Telephone Company's billings on or after June 1, 2013.

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1 IT IS FURTHER ORDERED that Arizona Telephone Company is authorized and directed to
2 file, on or before May 31, 2013, revised schedules of rates and charges consistent with the Findings
3 of Fact and Conclusions of Law contained herein.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6
7
8 CHAIRMAN

COMMISSIONER

9
10 COMMISSIONER

COMMISSIONER

COMMISSIONER

11
12 IN WITNESS WHEREOF, I, JODI JERICH, Executive
13 Director of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
Commission to be affixed at the Capitol, in the City of Phoenix,
this _____ day of _____ 2013.

15
16 JODI JERICH
17 EXECUTIVE DIRECTOR

18 DISSENT _____

19
20 DISSENT _____

1 SERVICE LIST FOR:

ARIZONA TELEPHONE COMPANY

2 DOCKET NO.:

T-02063A-12-0473

3

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